
**Hearing before the
Committee on Oversight and Reform
United States House of Representatives**



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**Legislative Proposals to Put the Postal Service on Sustainable
Financial Footing**

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Good morning Chairwoman Maloney, Ranking Member Comer, and Members of the Committee. Thank you for inviting me here today to discuss the work of the U.S. Postal Service Office of Inspector General (OIG), specifically as it relates to the Postal Service's recent service issues and potential reform efforts.

It has been a historic year for the Postal Service and for the country. The impacts of the COVID-19 virus have been widespread and long-lasting, and both the Postal Service and our agency have been affected significantly. The U.S. Department of Homeland Security recognizes the Postal Service as a national critical infrastructure because of its ability to reach all U.S. citizens in a crisis, and it continues to play an important role in supporting Americans through this time. The Postal Service also faces significant financial challenges, and the OIG's work has never been more critical.

The mission of the OIG is to ensure the efficiency, accountability, and integrity of our nation's Postal Service through independent oversight under the authority of the Inspector General Act of 1978, as amended. We take our mission very seriously. We conduct audits and evaluations of postal programs and operations to determine their efficiency and effectiveness. On the investigations side, we prevent and detect fraud and misconduct and have a deterrent effect on postal crimes.

To conduct our critical oversight work, the OIG is funded through the appropriations process, but none of our funding comes from taxpayers or the U.S. Treasury. We are one of the leanest OIGs, with only one full-time OIG employee for every 637 Postal Service employees. Even with those limited resources, in FY 2020 we returned nearly \$30 in total financial impact for every \$1 invested in our budget. In addition, our office relies heavily on data analytics as a force multiplier. We have strategically integrated data analytics into our core mission, and our OIG team builds tools that analyze Postal Service, law enforcement, and other data to identify areas of risk and indicators of fraud. Our highest priorities are focusing on the Postal Service's costs, service, and delivery, including providing transparency into service impacts of cost reduction initiatives.

Service and Costs Before the Pandemic

The ability of the Postal Service to meet its service standards has always been important. Service performance has become especially relevant during the pandemic, when Americans are relying so heavily on the Postal Service to deliver critical items, like checks, medicines, packages, and ballots. Prior to the pandemic, we looked at the Postal Service's mail processing and transportation network, evaluating both their service performance and cost management of operations used to meet this service.

Even before the challenges associated with COVID-19 arose, the Postal Service's processing network was not operating at optimal efficiency. The Postal Service's efforts to push mail through the system to meet service targets actually led to costly inefficiencies caused by the lack of coordination and integration between mail processing, delivery, and transportation operations. When mail was not processed on time, the Postal Service would utilize overtime, hold trucks, or pay for additional "late" transportation, leading to increased costs as well as more service issues down the line.

Mail arriving late from one facility has negative impacts on the next facility, making it more challenging to meet operating windows and increasing overtime. Delivery units, in particular, were inundated with large amounts of late mail. Some late mail was not properly sorted, resulting in expensive manual sortation by carriers before they could leave for their routes. The combination of late mail and additional sortation meant carriers could not start their delivery routes on schedule, resulting in carriers having to work past 6 p.m., increasing overtime.¹ Overall, we identified three areas where improvements would increase service performance and reduce postal costs: transportation, overtime, and employee availability.

Transportation

The Postal Service was routinely using its surface and air transportation networks to mitigate delays in mail processing, delivery, and other areas. In FY 2019, the Postal Service spent over \$550 million in extra transportation to alleviate delays that occurred in the network. Some surface transportation schedules were not consistently updated by management. Operating plans were not always followed, and mail processed past its clearance time resulted in transportation delays and trucks being sent with low mail volume. On average, trucks were around 26 percent full during our site visits. In the air network, “volume arrival profiles,” the plans that detail how much mail should arrive at certain times, were not aligned with terminal handling operations. This resulted in mail arriving too late to allow postal employees to build containers that avoid a sorting charge at the air carrier’s facility. The Postal Service should better align its schedules between mail processing and transportation and ensure schedules are taking into consideration the mail arrival profiles.²

Overtime

Even prior to the pandemic, the Postal Service’s use of overtime was growing faster than expected. From fiscal years 2014 to 2019, overtime costs and hours trended upward and consistently exceeded their planned budgets. Although package volume grew during this period, overtime increased despite declining letter mail volume and increased employee levels. While some overtime is expected, the overuse of overtime unnecessarily increases costs. Regular overtime is paid at one and one-half times an employee’s hourly rate, while penalty overtime is paid at double. The Postal Service needs to identify the reasons why overtime is overused and hold management accountable for its use. The Postal Service should also develop an action plan to monitor and reduce unauthorized overtime.³

¹ USPS OIG, *U.S. Postal Service’s Processing Network Optimization and Service Impacts*, Report No. 19XG013NO000-R20, June 16, 2020, <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/19XG013NO000-R20.pdf>.

² USPS OIG, *Transportation Network Optimization and Service Performance*, Report No. 20-144-R20, June 5, 2020, <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/20-144-R20.pdf>.

³ USPS OIG, *Assessment of Overtime Activity*, Report No. 20-209-R20, August 25, 2020, <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/20-209-R20.pdf>.

Employee Availability

Employee availability issues were a driving factor in many of the problems mentioned earlier. When there is insufficient staffing, it can be difficult to process and transport mail on time. To ensure coverage of operations when there are not enough employees, the Postal Service increased the use of overtime. In FY 2019, over 80 percent of mail processing managers did not meet their employee availability targets. During this same period, mail processing facilities had a turnover rate of about 8 percent for career employees and about 3 percent for non-career employees. With each employee who leaves, management needs to hire and train a new person. Each new onboarding potentially impacts productivity and service due to fewer trained employees being available for mail processing operations. The Postal Service needs to address its staffing issues.

Pandemic's Impact

When the pandemic hit, it brought a perfect storm of postal challenges:

- declines in mail volume and revenue;
- a surge in parcel volume, which offset the revenue loss from mail, but required costly operational shifts; and
- further reduced employee availability due to illness and quarantine.

In the beginning of the pandemic, the Postal Service was able to modify its operations to mitigate the impact of the pandemic and meet its universal service obligation.⁴ However, starting in early summer, the Postal Service introduced various operational changes that were designed to reduce costs. The Postal Service did not conduct any analysis of the service impacts of these changes prior to implementation. Guidance to the field about these changes was primarily done orally, resulting in confusion and inconsistency with how the operational changes were implemented. Soon after, the Postal Service implemented a significant organizational change. When deployed on top of employee absences due to COVID-19, the organizational and operational changes negatively impacted the quality and timeliness of mail delivery. Some areas were hit harder than others.⁵

The pandemic impacted the Postal Service in other ways as well. The 2020 primaries and general election saw record numbers of Americans voting by mail. In addition to our planned Election Mail readiness reports, we devoted significant resources to monitoring how the Postal Service processed mail-in ballots. In the weeks leading up to and during the week of November 3, we sent 500 OIG employees to over 2000 postal facilities to observe ballot processing in all 50 states, as well as D.C. and Puerto Rico. Our field work is now complete and overall, the Postal Service effectively prioritized and delivered

⁴ USPS OIG, *Mail Service During the Early Stages of the COVID-19 Pandemic*, Report No. 20-275-R21, January 4, 2021, <https://www.uspsoig.gov/document/mail-service-during-early-stages-covid-19-pandemic>.

⁵ USPS OIG, *Operational Changes to Mail Delivery*, Report No. 20-292-R21, October 19, 2020, <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/20-292-R21.pdf>.

ballots during the election season. We will soon release our work on service performance during the general election and the subsequent run-offs.

After the election and throughout the peak holiday mailing season, service performance was severely challenged. While there are signs of improvement, concerns about service performance remain. We are currently focused on broad service issues, as well as specific areas where concerns have been raised. In response to a request from Members of this Committee and others, we are looking at service performance in a number of low-performing districts, including Atlanta, Georgia; Charleston, South Carolina; and Detroit, Michigan. In addition, we are evaluating recent embargoes, where the Postal Service stopped accepting mail at certain overwhelmed facilities. We are currently finalizing a project specifically focused on the Cleveland, Ohio plant, where commercial drivers experienced excessive wait times. We are also evaluating collection box removals, post office suspensions, service performance, and customer feedback about poor service to see if there are any patterns that show if any of these things disproportionately affected communities with certain demographic characteristics. Finally, we are studying the development of service performance targets and measurements and looking broadly at reasons why they are challenging for the Postal Service to meet.

Employee Safety

We evaluated the Postal Service's efforts to keep its employees safe during the pandemic. Overall, the Postal Service took many important steps to ensure the safety of its employees that likely resulted in saving lives. We did, however, identify three areas where improvements were needed to better protect postal employees. First, there needs to be clearly defined, well communicated, and strictly enforced requirements about wearing face coverings when social distancing is not possible. Second, the Postal Service's Close Contact Tracing Program did not include an overarching goal with associated metrics, and it did not have an adequate number of nurses on staff to provide contact tracing. Third, despite the Center for Disease Control and Prevention's (CDC's) recommendations, the Postal Service did not deploy temperature taking nationwide at its facilities. This may have increased the likelihood of sick employees entering the workplace.⁶

Postal Reform

While the Postal Service had a net income in the first quarter of fiscal year 2021, it has faced financial difficulties for years. The combination of declining First-Class Mail volume and revenue, a continually growing number of delivery points, and large retirement-related expenses has resulted in it reporting a net loss annually for almost 15 years. As discussed above, there are changes the Postal Service could make to reduce costs and improve service. However, postal reform is needed to fully address the financial situation. While there are no easy answers, there are potential reforms that can help move towards financial solvency.

⁶ USPS OIG, *Employee Safety – Postal Service COVID-19 Response*, Report No. 20-259-R21, November 20, 2020, <https://www.uspsoidg.gov/sites/default/files/document-library-files/2020/20-259-R21.pdf>.

The Postal Service has considerable costs associated with retiree obligations. By law, the Postal Service participates in the federal government's two pension plans — the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). In addition, the Postal Service is mandated to make annual payments into its own retiree health benefit fund (RHBF), which is designed to cover the future costs of postal retiree's health benefits. In some years, these obligations are what drove the Postal Service to post a net loss.

Currently, these plans are 70 percent funded overall — the pension funds are almost 82 percent funded and the RHBF is 36 percent funded. There are two ways to increase the funding levels — increase the assets put aside to cover the obligations and/or reduce the liabilities. Our work supports various proposals that cover both options, including addressing the retiree health prefunding payments, alternative investment strategies, Medicare integration, and CSRS overfunding.

Addressing the Retiree Health Prefunding Payments

The Postal Service is mandated to make annual payments into the RHBF that are designed to ensure the future obligations for all of its current employees and retirees are prefunded. Given the Postal Service's current financial concerns, this may be too ambitious of a goal. In a 2017 report, we compared the Postal Service's funding levels with other sectors, including federal, military, state governments, and companies listed in the Fortune 1000. At that time, the Postal Service had a greater funding level of its retiree health benefits than the federal government, the military, and state governments. In addition, of the 45 percent of Fortune 1000 companies that managed retiree health benefits, only 39 percent of them had any prefunding.⁷

We also have evaluated the assumptions used to estimate the Postal Service's retiree health liability. Since the payments are based on future liability estimates, the annual payments can vary with changes in assumptions. In March 2020, we published a report that showed the current methodology has an overly optimistic assumption about mortality improvement. At that time, we estimated that changing this assumption to better reflect the mortality rate trends could reduce the Postal Service's unfunded RHBF liability by \$4.2 billion.⁸

Alternative Investment Strategies

The Office of Personnel Management (OPM), in conjunction with the U.S. Treasury Department, manages the Postal Service's retirement investments. Under current law, the assets from all three retirement plans are restricted to government trust funds invested solely in fixed-rate U.S. Treasury securities or other government-guaranteed securities. This investment strategy is typically regarded as riskless, as there is virtually no risk of losing the principal. This safety, however, comes with the trade-off of low

⁷ USPS OIG, *Postal Service Retiree Funds Investment Strategies*, Report No. FT-WP-17-001, September 20, 2017, <https://www.uspsoig.gov/sites/default/files/document-library-files/2017/FT-WP-17-001.pdf>.

⁸ USPS OIG, *Options to Reduce Unfunded Retirement Liabilities*, Report No. 19BG010FT000-R20, March 6, 2020, <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/19BG010FT000-R20.pdf>.

earnings, which increases the risk of the investments not producing sufficient earnings to cover future retirement obligations.

We have compared the current investment strategy to six alternative diversified portfolios, ranging from low- to high-risk, and found all six alternatives would likely improve the funding levels over the next 20 years.⁹ Our most recent audit estimated the current investment strategy, if left unchanged, would likely result in \$174 billion in total unfunded retirement liabilities over the next 20 years. Using the alternative investment strategies we identified, this unfunded amount could be reduced significantly. Our analysis found potential reductions in unfunded amounts ranged from \$70 billion to more than \$200 billion.

We also identified a separate low-risk option that may have an advantage over the current investment strategy. Retirement obligations are impacted by many factors, one of them being inflation. Treasury Inflation-Protected Securities (TIPS) investments are contractually linked to inflation and investing in them could help counter the impacts of inflation on liabilities. Investing a portion of postal retirement assets in TIPS could increase the returns on the three retirement funds by about \$1.4 billion annually over two years. The Secretary of the Treasury has authority to allow the OPM to invest retirement assets in TIPS, provided the Secretary determines that such investments would be in the public interest.¹⁰

Medicare Integration

Medicare integration involves requiring postal retirees that participate in the health benefit program to enroll in various components of Medicare once they are eligible. There are significant savings to the Postal Service from Medicare integration. In a 2017 audit, we estimated the Postal Service's health benefits liability would decrease by about \$24 billion if it required its eligible retirees to enroll in Medicare Parts A and B. The health benefits liability would decrease by an additional \$24 billion by implementing an Employer Group Waiver Plan (EGWP) for prescription drug coverage.

CSRS Overfunding

At its creation in 1971, the Postal Service was required to keep most of its employees enrolled in CSRS. The Postal Service and the federal government share the CSRS burden for employees whose careers span both the Post Office Department and the Postal Service. The current methodology applies more of the obligation to the Postal Service, even for employees who worked an equal number of years at the former Post Office Department and the Postal Service.

In 2010, we issued a report that proposed an alternative methodology based on years of service. We estimated that if our methodology had been used, the assets in the Postal

⁹ USPS OIG, *Options to Reduce Unfunded Retirement Liabilities*, Report No. 19BG010FT000-R20, March 6, 2020, <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/19BG010FT000-R20.pdf>.

¹⁰ USPS OIG, *Treasury Inflation-Protected Securities*, Report No. FT-AR-19-003, November 26, 2018, <https://www.uspsoig.gov/sites/default/files/document-library-files/2018/FT-AR-19-003.pdf>.

CSRS fund would have been \$75 billion larger.¹¹ The Postal Regulatory Commission (PRC) later issued a report suggesting a different methodology, a “benefit accrual” method, that reflects the traditional CSRS formula in which employees earn benefits more slowly during the start of their career and more quickly in later years. At the time, the PRC estimated the Postal CSRS fund would have been at least \$50 billion larger if the benefit accrual method had been used.

In response to a Congressional request, we provided updates to both the years of service and benefit accrual method in 2018. We estimated the Postal Service’s CSRS fund would have been larger as of September 30, 2016 by: (1) \$111 billion using the years of service method, and (2) \$80 billion using the benefit accrual method.¹²

Revenue Opportunities

Another way to address the Postal Service’s financial problems is exploring opportunities for new revenue. The Postal Service has historically played an important role in supporting and expanding the country’s infrastructure, from building roads to developing the ZIP Code system to providing non-postal government services. We believe there are opportunities for the Postal Service to provide additional services that align with this historical role. For example, the Postal Service could partner with internet providers to improve broadband connectivity, utilize its vast network to improve access to government services, or provide non-bank financial services.¹³ By leveraging its extensive reach, the Postal Service can both increase revenue and provide valuable services to the American public.

Before undertaking any new non-postal services, the Postal Service would want to ensure two things. First, any new service should produce enough revenue to cover its costs and make a contribution towards institutional costs. Second, the provision of the service should not negatively impact mail service or postal customers. Congress is also well-positioned to set forth proper guardrails and parameters for the Postal Service to offer new non-postal services.

Universal Service Obligation

The purpose of the Postal Service’s universal service obligation (USO) is to ensure that all postal users receive a minimum level of service at a reasonable price. However, many aspects of the Postal Service’s current USO are not clearly defined. Our work

¹¹ USPS OIG, *The Postal Service’s Share of CSRS Pension Responsibility*, Report No. RARC-WP-10-001, January 20, 2010, https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-10-001_0.pdf.

¹² USPS OIG, *Update on the Postal Service’s Share of CSRS Pension Responsibility*, Report No. RARC-WP-18-009, May 7, 2018, <https://www.uspsoig.gov/sites/default/files/document-library-files/2019/RARC-WP-18-009.pdf>.

¹³ USPS OIG, *Next Generation Connectivity: Postal Service Roles in 5G and Broadband Deployment*, Report No. RISC-WP-20-007, September 14, 2020, <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/RISC-WP-20-007.pdf>; *E-Government and the Postal Service – A Conduit to Help Government Meet Citizens’ Needs*, Report No. RARC-13-003, January 7, 2013, https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-13-003_0.pdf; and *Providing Non-Bank Financial Services for the Underserved*, Report No. RARC-WP-14-007, January 27, 2014, https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf.

shows that a further defined USO could protect postal customers and provide guidance to the Postal Service about what changes it can implement in response to its financial challenges.¹⁴ We looked at eight international posts that recently made changes to their USO, and perhaps the most important finding was that there is no one unique set of obligations defining universal service. The Postal Service's USO needs to be tailored to this country's priorities, balancing the needs of the postal customers against the cost of providing the services.¹⁵ There is the possibility that the American public and mailing community need services that are greater than the Postal Service can afford to provide. In that case, Congress may want to consider providing a subsidy to cover the cost of specific targeted obligations. The Postal Service, in fact, currently has the legal authority to request \$460 million from Congress annually to cover the costs of rural service. The Postal Service, however, has not requested these funds since FY 1982.¹⁶

Cost Attribution

Accurate cost information is essential for the Postal Service to be able to price appropriately and manage its business. The current costing system was developed to provide national, annual estimates of product costs that rely heavily on manually collected data. In 2018, the Postal Service reportedly spent \$26 million for its manual cost attribution data collection efforts. Utilizing data from existing systems could allow the Postal Service to use census data, versus samples, and lower the costs of data collection. While the Postal Service has made some efforts to use automated data, there are additional opportunities to replace sampling data with automated census data. For example, although the Postal Service has acquired technologies like using Intelligent Mail Barcodes and Informed Visibility to track domestic mail movement through the network, it has not yet fully leveraged these technologies to support identification of product costs.

A robust costing system should be capable of gathering costs of the flow of mail as they are incurred from the point of entry, acceptance, through processing, final delivery, returns, and invoicing. Enhancing its current cost system to include more granular, census data would increase the accuracy of the Postal Service's cost attribution calculations, better support complex product and pricing decisions, and allow management to apply cost analysis to specific customers and specific areas. Additionally, the increased use of census data would help identify cost reduction opportunities in the network. Lastly, using more census data could reduce or eliminate labor costs associated with the collection of sample data by technicians.¹⁷ In response to our recommendation, the Postal Service has developed a five-year plan identifying its milestones for leveraging data from its available technologies into its cost systems.

¹⁴ USPS OIG, *Guiding Principles for a New Universal Service Obligation*, Report No. RARC-WP-15-001, November 17, 2014, https://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rarc-wp-15-001_0.pdf

¹⁵ USPS OIG, *Reevaluating the Universal Service Obligation*, Report No. RISC-WP-20-004, May 6, 2020, <https://www.uspsoidg.gov/sites/default/files/document-library-files/2020/RISC-WP-20-004.pdf>.

¹⁶ USPS OIG, *Maintaining Rural Retail Networks: Best Practices Abroad and their Implications for the U.S. Postal Service*, Report No. RISC-WP-20-003, March 25, 2020, <https://www.uspsoidg.gov/sites/default/files/document-library-files/2020/RISC-WP-20-003.pdf>.

¹⁷ USPS OIG, *Costing Best Practices*, Report No. CP-AR-19-004, September 17, 2019, <https://www.uspsoidg.gov/sites/default/files/document-library-files/2019/CP-AR-19-004.pdf>.

Conclusion

Now is a critical time to take up these pressing issues facing the Postal Service. While it can make changes to address its service challenges, the Postal Service needs Congress' help to address the prefunding mandate and its unfunded liabilities for retiree health and pension benefits. As you work through these complex issues, the OIG remains available to assist the Committee in whatever way we may be useful.

Thank you for the opportunity to testify and discuss our work. I am happy to answer any questions.